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Message Text

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INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

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SUBJECT: OECD MINISTERIAL: INFLATION AND EMPLOYMENT,
INTERNATIONAL TRADE, AND MONETARY QUESTIONS

REF: OECD 9076, C(74)80

1. SECRETARY GENERAL HAS AS USUAL PREPARED A COMPREHENSIVE
AND PROVOCATIVE PAPER ON ECONOMIC ISSUES IN PREPARATION
FOR THE MINISTERIAL. WHILE IT MUST BE REVISED TO TAKE
XCSS DISCUSSIONS INTO ACCOUNT, IT HAS SERVED AS A USEFUL
FOCUS FOR INITIAL THINKING ON MINISTERIAL ISSUES.
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2. WE ARE CONCERNED THAT DOCUMENT RAISES TOO MANY ISSUES WHICH ARE EITHER OF SECONDARY IMPORTANCE OR ON WHICH IT IS UNREALISTIC TO EXPECT CONSENSUS. PAPER COULD BE MORE CLEARLY FOCUSED, SO AS TO ENCOURAGE MINISTERS TO CONCENTRATE THEIR ATTENTION ON PROBLEMS OF INFLATION AND TRADE STANDSTILL.

3. WHILE WE AWARE THAT SECRETARY GENERAL IS FREE TO MAKE WHATEVER POINTS HE WISHES IN REFDOC, MISSION SHOULD NOTE THAT REFDOC IS MORE BEARISH CONCERNING IMPACT OF OIL SITUATION ON DEMAND LEVELS AND EMPLOYMENT THAN WE BELIEVE IS WARRANTED.

4. WHILE WE DO NOT WISH TO UNDERESTIMATE THE IMPLICATIONS

OF OIL PRICE DEVELOPMENTS, SECRETARIAT SHOULD NOT GO TO OTHER EXTREME. AS TIME PASSES PROSPECTS FOR SOFTENING OF OIL PRICE STRUCTURE ARE IMPROVING AND THREATS TO DEMAND LEVELS OF INDUSTRIAL COUNTRIES LOSE
SOME OF THEIR INTENSITY. IN THIS RESPECT POLICIES PURSUED BY MAJOR COUNTRIES IN LAST FEW MONTHS ARE BEARING FRUIT.

5. WE WELCOME SECRETARIAT'S TREATMENT OF INFLATION AS THE MOST INTRACTABLE OF THE ECONOMIC PROBLEMS WE FACE, AND ONE THAT REQUIRES VERY SPECIAL ATTENTION IN THE MONTHS IMMEDIATELY AHEAD. WE MUST MAKE THE MOST CAREFUL ASSESSMENT WE CAN OF THE STRENGTH AND LIKELY DURATION OF PRESENT INFLATIONARY FORCES, AND OF THE LIKELY IMPACT OF POLICY ACTIONS ALREADY TAKEN. IN THIS EFFORT, WE WELCOME THE SPECIAL CONTRIBUTIONS WHICH THE SECRETARIAT CAN MAKE.
WE DO NOT, HOWEVER, AGREE WITH SUGGESTIONS IN PARA 10 REFDOC CONCERNING RESORT TO TEMPORARY MEASURES SUCH AS SELECTIVE SUBSIDIES OR STRICT DIRECT PRICE CONTROLS.

6. WE ASSUME REFDOC WILL BE REVISED TO REFLECT AGREED CONCLUSIONS OF XCSS CONCERNING COOPERATION IN TRADE POLICY FIELD AND COMMODITIES, WHILE MAINTAINING EMPHASIS ON TRADE STANDSTILL PROPOSAL.

7. WE ARE SKEPTICAL ABOUT UTILITY OF FURTHER DISCUSSION
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AT THIS JUNCTURE OF PAYMENTS GOALS QUESTION (PARAS 17 AND 22A). IN VIEW OF PRIMARY RESPONSIBILITY GIVEN TO C-20 AND IMF IN RESOLVING MONETARY ISSUES (INCLUDING DEVELOPMENT OF GUIDELINES FOR FLOATING), GENERAL OPPOSITION TO FORMAL EXCHANGE RATE TARGETS, AND IMPRACTICABILITY OF RELATING PAYMENTS AIMS TO EXCHANGE RATES, WE COULD NOT AGREE TO SUGGESTED EFFORT TO DEVELOP PAYMENTS AIMS EXERCISE AS MEANS OF JUDGING APPROPRIATENESS OF MOVEMENTS

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IN EXCHANGE RATES. WE ALSO DOUBT THERE IS ANY REALISTIC PROSPECT, ESPECIALLY IN VIEW OF CURRENT INFLATION PROBLEM, OF MEANINGFUL ADVANCE IN COOPERATION RE NATIONAL MONETARY POLICIES BEYOND THAT AGREED IN WP 3, AND SEE PARAS 19(D) AND 22C (IV) AS EITHER MEANINGLESS OR LIKELY TO RAISE FALSE HOPES.

8. WE QUESTION WHETHER ISSUES DISCUSSED IN PARAS 19,

22A AND 22C SHOULD BE HIGH LIGHTED FOR MINISTERS. THEIR DELETION OR DE-EMPHASIS WOULD HELP TO FOCUS DISCUSSION ON OTHER QUESTIONS. IF RETAINED, HOWEVER, HOPE SECRETARIAT WOULD TAKE INTO ACCOUNT FOLLOWING SPECIFIC COMMENTS:

1) IT IS UNCLEAR WHAT TYPE OF INFORMATION EXCHANGE IS CONTEMPLATED (PARA 19A AND 22C(I)) AND OUR PARTICIPATION WOULD, IN ANY CASE, BE CONTINGENT UPON CLARIFICATION OF AND AGREEMENT ON PURPOSE OR OBJECTIVE OF "MONITORING" OF CAPITAL FLOWS.

2) ISSUE OF PRIOR CONSULTATION ON MODIFICATIONS OF CAPITAL CONTROLS (PARAS 19B AND 22C(II)) SHOULD FOCUS ON INTENSIFICATION OF RESTRICTIONS. CONSULTATION SHOULD NOT BE NECESSARY WHEN RELAXING RESTRAINTS.

3) NOTE WP 3 IN TOKYO CONCLUDED CONFIDENTIAL EXCHANGES OF INFORMATION ON INTENTIONS TO RAISE MAJOR LOANS ON INTERNATIONAL CAPITAL MARKETS (PARAS 19C AND 22C (III)) NOT PRACTICABLE .

9. SUGGEST THAT SECRETARIAT MIGHT FIND MORE APPROPRIATE TERM THAN "MASSIVE" IN FIRST SENTENCE OF PARA 5.
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10. MISSION SHOULD REITERATE U.S. INTEREST IN TAKING UP DIRECT INVESTMENT, SUGGESTING THAT AT AN APPROPRIATE PLACE ON AGENDA, PROVISION SHOULD BE MADE TO PERMIT DISCUSSION OF THE INVESTMENT AND MNC EXERCISE.

11. FOREGOING IS PRELIMINARY USG REACTION TO REFDOC, FOR USE IN APRIL 30 HEADS OF DEL MEETING.
RUSH

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